

RECEIVED

TEACHING FARM INCOME TAX PRINCIPLES BY MAIL

by

APR 12 1991

Richard D. Duvick, Darrel A. Acker, and David P. Miller ^{1/}

AGRICULTURAL ECONOMICS

The Ohio State University

& RURAL SOCIOLOGY

COLUMBUS, OHIO 43210

Introduction

Income tax programs have a long history in the extension education programs of most land grant universities. In Ohio, these efforts go back over 40 years, to when farmers first became subject to the Federal income tax. In recent years, Ohio's efforts were aimed at 2 primary groups - farmers and farm tax return preparers. The latter were provided quite detailed materials and instructions to assist them in keeping current with the increasing complexity of tax regulations. Farmers were primarily updated on changes in tax laws via extension meetings and articles, with IRS Publication 225, the Farmer's Tax Guide, as a primary reference.

But while farm income tax management update meetings formed a significant part of Extension farm management programming, they seemed to suffer several limitations: a) getting people out, b) finding time to provide sufficient subject-matter depth, and c) use of limited agent time and travel funds. Furthermore, it seemed that part of the problem was that many persons lacked the basic understanding of tax principles and application to fully utilize either tax update meetings or Publication 225.

Ohio Farm Income Tax Letter Study Course - Origins

Early in 1978, Dave Miller and Darrel Acker, Area Farm Management Agents at Belle Valley and Wapakoneta, respectively, suggested we try a new approach to teach the basics of farm income tax. The method chosen was a "letter study course" - basically one-way communication rather than the two-way communication of a "correspondence course". Other extension programs, notably home economics, had successfully used letter study courses.

In essence, the letter study course consists of a series of lessons mailed on a weekly basis to participants. Each lesson covers one major topic in farm income tax, a list of additional reading from Publication 225 and a series of review questions to emphasize key points. Correct answers for the review questions are sent along with the following week's lesson.

Miller, Acker and I decided to try the letter study course on a pilot basis during 1978-9. We set the following objectives for our efforts:

- 1) to reach a larger number of people with more information at less cost than traditional meetings

Presented at
1) North Central Regional Farm Management Extension Workshop,
Purdue University, May 4-6, 1982

- 2) to provide farm folks who file their own income tax returns with a review of basics and an update on current tax regulations
- 3) to provide those who hire professional tax help with sufficient understanding so they can more effectively use that assistance
- 4) to help farm people incorporate tax management into their overall farm business management
- 5) to evaluate the effectiveness of a letter study course in teaching this subject

Procedures

To achieve reader interest we felt mid-November to late January was probably the ideal time to offer the course. We narrowed a list of potential topics to 8 major topics, plus a comprehensive problem. Our intent was to have each letter no more than 3 to 4 pages long, plus review questions and answers. Both Publication 225, The Farmer's Tax Guide, and NCR-2, Income Tax Management for Farmers were used for additional readings in the pilot year - partly to reduce the amount covered in the letters and partly to provide more in-depth references.

Topics or areas covered in each letter are:

1. Farm Records - for Taxes and Management
2. Tax Reporting - Definition of a Farmer and Estimated Tax Filing
- 3 & 4. Depreciation - Methods, Procedures, and Strategies
5. Investment Tax Credit
6. Soil and Water Conservation and Land Clearing Expenses
7. Tax Treatment On Disposition of Capital and Business Assets
8. Tax Considerations In Buying and Selling a Farm
9. Social Security Coverage for Farmers and Farm Employees

Each lesson was assigned to one individual to develop, along with review questions and answers. Each lesson was reviewed and critiqued by the other team members, plus outside reviewers.

The dynamic character of tax regulations became quickly evident as Congress passed the Revenue Act of 1978 - after we had written and published the 1978-79 materials, but before we had sent it to participants. Thus, an update letter was written and mailed to all registrants with the final mailing.

During the pilot phase, the course was offered at no charge to farmers. 500 persons registered or about 26 per county in the 18 counties of the Belle Valley and Wapakoneta Extension Areas. Participants included farmers and wives, vocational agriculture instructors, tax consultants, bankers, landlords and retired farmers. At the end of the course, an evaluation form was sent to each registrant to find out what

they liked and disliked about the course. In addition, we asked if they would be willing to pay \$5.00 for such a course to pay for printing, some handling, and postage. The response to a fee was favorable, so we used the evaluation comments to revise the materials and began to offer the course on a fee basis statewide in 1979-80.

The revised versions were longer, with more detail than the pilot set of letters. In addition, we dropped the NCR-2 publication, since it was evident the letters would need to be revised annually and it was difficult to identify current and out-of-date portions of NCR-2.

Enrollment

Registration of participants and mailing of individual letters is handled through county extension offices. A set of materials was sent to each county office in August which included: Suggestions for offering the farm income tax letter study course, Sample news release, Evaluation highlights, and Sample letter to mail to persons on their mailing list. When enrollment was completed, they sent a tear sheet to my office reporting the number enrolled for their county and we sent them all lesson materials. A copy of these materials is attached as Appendix I.

In 1979, a total of 2,115 persons in 70 Ohio counties enrolled for the course at \$5.00 per registrant. In 1980, 60 counties offered the course and 1,582 persons registered. In 1981, the fee was raised to \$6 to cover increased postal charges and 1,749 persons enrolled through 71 counties. Thus, we have averaged about 27 registrants per county per year, with the range from 1 to 135 per county. The total number of registrants over the four years is 5,946, including the 500 from the pilot program.

Evaluation

At the end of the 1979-80 letter-study course we wanted to do an evaluation of the program effectiveness. Dr. Howard Ladewig, Leader, Evaluation for the Ohio Cooperative Extension Service helped us to draft an evaluation instrument. (See Appendix II)

Rather than survey all 2,115 registrants, we surveyed a 10 percent sample from the farm families, plus 26 tax preparers who had enrolled in the course. The response rate was 63 percent from the farm families and 85 percent from the tax preparers.

About one-half of the respondents said farming was their major source of income. Fifty-seven percent of the farm families said they did their own tax returns. There was a wide range of ages reported - roughly 10 percent were under 30, while 20 to 24 percent were in the age groups 30-39, 40-49, 50-59, and 60 and over.

On a scale of 1 (low) to 5 (high) the respondents rated their ability to correctly prepare a farm income tax return before taking the course at 2.79. After completing the course, they gave themselves a rating of 3.85, an improvement of more than 1 point.

Respondents were asked about their understanding, before and after the course, of six major topics covered in the course.

"Do you feel you had (before the course) and have (after the course) a good working knowledge of:"

	<u>"Yes" Before the Course</u>	<u>"Yes" Before the Course</u>
1. What records to keep for tax purposes?	90%	100%
2. Choosing appropriate depreciation strategies?	47%	91%
3. Claiming correct investment credit on new and used property?	50%	93%
4. Correct tax treatment of gain from sale of capital items?	43%	89%
5. When you are liable for paying social security tax?	68%	98%
6. Why a "farmer" as defined by IRS doesn't have to file quarterly estimated tax returns?	56%	96%

These questions only scratch the surface of the total knowledge needed to do farm income tax returns. But the responses by those surveyed indicates they gained a good bit of knowledge from the course.

The evaluation also attempted to quantify savings in income taxes as a result of the course. Of the 103 farm families who responded to the question, "Did you save any income tax as a result of this course?", 45 percent said they had. Their estimated savings were \$256 per "yes" respondent. Assuming a random sample, projecting this to all 2,078 farm families who participated in 1979-80, the course may have resulted in \$240,000 of tax savings.

Was the course worth the \$5.00 subscription? The above dollar savings suggest the answer is yes. And 136 of the respondents, or 96 percent, said yes it was worth the \$5.00 fee.

Other Thoughts

A letter study course, especially of a constantly changing topic like the income tax, does create some logistical problems. We've found the course has had to be revised each year - and in 1981 the revisions were major. These revisions, and a cost of \$2 per set, mean that you only want to print enough copies to service that year's demand.

To try to estimate demand, we contact all county agents in the spring and see who plans to offer the course that fall. Then we plan on 30 registrants per interested county. While not perfect, it has gotten close to actual demand.

Actual distribution to county offices will depend on the type of support services in your college. We printed and distributed materials through our department. Much of the material was picked up by agents at our fall extension conference. The balance was bulk mailed to county offices.

Summary

Nearly 6,000 persons have enrolled in the Ohio Farm Income Tax Letter Study Course since 1978. Our evaluations indicate that enrollees have been well pleased with this effort. And it has allowed us to contact many additional persons and improve their understanding of farm income tax principles.

Two other states, Iowa and Minnesota, have also offered tax letter study courses. Iowa used our material, with some modifications, in both 1980-81 and 1981-82. Minnesota made substantial modifications in several lessons, placing much more emphasis on tax management strategies, and offered the course for the first time during 1981-82. Other states, including New Mexico and Arkansas, have indicated they plan to offer it in the near future. All of these efforts help us do a better job of extension education.

^{1/} Paper prepared for the NCR Farm Management Extension Workshop held at Purdue University, May 4-6, 1982. The authors are all with the Ohio Cooperative Extension Service, The Ohio State University. Duvick is an Extension Economist located at Columbus; Acker is the Wapakoneta Area Farm Management Agent; and Miller is the Belle Valley Area Farm Management Agent.

APPENDIX I



Cooperative Extension Service
The Ohio State University

Agricultural Economics
and Rural Sociology
2120 Fyffe Road
Columbus, Ohio 43210
Phone 614 422-7911

August 18, 1981

TO: County Extension Agents, Agriculture
FROM: Richard D. Duvick, Extension Economist *RDD*
SUBJECT: "Official" Enrollment by Counties for 1981-82 Ohio Farm Income Tax
Letter Study

Below is a form to use to request your materials. They will come packaged "so many" of each letter together, with one copy of the suggestions for using also included.

Allow at least two weeks for arrival of your materials before the date of your first mailing, if they must be mailed from Columbus. It would greatly facilitate things if you could pick them up during Conference!

RDD/mk

cc - Area Supervisors
Area Farm Management Agents
E. Sullivan

Tear off this part and return to: Richard Duvick, AERS, OSU,
2120 Fyffe Rd., Columbus,
Ohio 43210

County _____ Agent's Signature _____

Total Number Enrolled: _____

_____ X \$ 2.75 per enrollee

Total Charge \$ _____ for lesson materials.

Please enclose a check payable to The Ohio State University

FARM MANAGEMENT EXTENSION
1981-82
Farm Income Tax
Letter-Study Course

SUGGESTIONS FOR OFFERING THE
FARM INCOME TAX LETTER STUDY COURSE

REGISTRATION DATES

Send Enrollment letters no later than September 1. A sample letter is enclosed.

Registrations will be due back in the office by September 25. This will give you a few days to get your order for materials to Columbus by Oct. 1. Hopefully, materials can be picked up while at Annual Conference again this year, October 19-21, so you'll have them in plenty of time to begin mailing the first week of November.

Advertising can be by separate letter, newsletter, news release or column, radio, TV, etc. There are no plans for statewide coverage in The Ohio Farmer, etc. this year. There's also enclosed a bit of information from the evaluation done on the 79-80 course. One county last year sent the announcement with an ASCS mailing and had 135 enroll!

SECURING MATERIALS -

All materials will be distributed to you from Columbus. They will be in quantities of five and will cost you \$2.75 per enrollee.

You should allow at least two weeks after registrations are in for securing materials. Each lesson will be packaged separately to facilitate your mailing. Materials will include the nine lessons, the problem and a solution. An "update" on current tax law changes will come later. Also a "welcome" letter will be included to use with the first lesson. We will provide (free) three extra sets of lessons with your order -- one for your file and reference, the others to service late registrations if needed.

MAILING DATES -

There are 12 mailings: The Farmer's Tax Guide (which needs to go out at least by the same time as Lesson 1); Lessons 1 - 9; the comprehensive problem; and the solution to the problem and the update.

Lessons are mailed one per week, starting no later than the first week of November -- might want to skip the week of Christmas (the "welcome" letter says we will) -- finish up towards the end of January.

POSTAGE AND MAILING -

Since the course is on a subscription basis, the mailings must be sent postage.

The Farmer's Tax Guide -- a reference for the course -- can be sent out under penalty mail.

The total first-class postage per enrollee should be \$2.75 or less, which along with the \$2.75 cost of materials, should leave you a little "cushion."

If the FTG's are available at the time of registration, they can be sent out as the registrations are received. Might want to mention on the buckslip that the FTG is a part of the course and should be saved. A 9 x 12 kraft (franked) envelope will be needed for the Farmer's Tax Guide.

Ten of the mailings (Lessons 1 - 9 and the problem solution and update) can be made with regular letter size (No. 10) envelopes.

The tenth mailing -- the problem and blank tax forms -- should be mailed in a 6-1/2 x 9-1/2 (bulletin size) envelope.

Labels or something similar work better than addressing individual envelopes but this depends on the number of people registered.

Be sure to check with your postmaster about mailing rates; several alternatives may exist to cut your cost.

Since all materials for the course will be coming to your office at the same time -- except for a possible update letter to be included with the last mailing -- all envelopes for the first ten mailings could be stuffed at the same time and all that would remain is delivery to the post office on the specified dates.

These are only suggestions for your consideration. Hopefully by planning ahead, you will be able to handle the course with very little disruption of normal office routine.

Sincerely,

Richard D. Duvick

Richard D. Duvick
Exten. Econ., Fm. Mgt.
Ohio State University

Darrel L. Acker

Darrel L. Acker
Area Exten. Agt., Fm. Mgt.
Wapakoneta

David P. Miller

David P. Miller
Area Exten. Agt., Fm. Mgt.
Belle Valley

It was used in 1978-79 by a pilot group of about 500 families and farm tax advisors. They helped evaluate the course and suggested revisions. The families said the course helped them better understand what records to keep, how to choose depreciation strategies and claim investment credit correctly, and how to correctly report gain on sale of capital items, among other things. Of those responding, 45 percent said they felt the course had helped them save income taxes, with an average saving reported of over \$250 per family.

Over 3,500 Ohio farm families enrolled in the course in the 1979-80 and 1980-81 years. Iowa State University modified the course slightly and offered it in 1980-81. At least three other states are planning to use the course.

The lessons have been reviewed since last year and revised and updated to clarify certain areas and to conform to recent tax regulations and interpretations.

Don't forget the October 1 deadline, reminds _____, so you don't miss out on this opportunity to increase 1981 after-tax net income!

All educational programs and activities conducted by the Ohio Cooperative Extension Service are available to all potential clientele on a non-discriminatory basis without regard to race, color, sex, national origin or religious affiliation.

Sample News Release for County Use —
1981-82 Farm Income Tax Letter Study
(Could also be used as basis for radio interview)

FARM INCOME TAX MANAGEMENT COURSE AVAILABLE BY MAIL

Income tax management before the end of the year may be even more critical than usual for _____ County farmers in 1981, reports _____, County Extension Agent, Agriculture for the Cooperative Extension Service of The Ohio State University. The wet spring and related effects -- planting delays; added chemical, fertilizer and fuel costs; and potential reduced yields; along with some marked changes in prices -- all will affect your tax situation this year . . . as well as your pocketbook!

The 1981-82 Ohio State University Extension "Farm Income Tax Letter-Study Course" could help you better understand the Federal income tax regulations and as a result increase your after-tax net income! The course will be available in the county, reports _____, for a fee of \$6.00 to cover postage and printing of materials.

In order to enroll, contact the County Cooperative Extension Service Office by October 1, so materials can be assembled and mailing can begin on time.

The course consists of weekly letter-lessons mailed from the County Office, the first week of November through late January. There are nine lessons plus a comprehensive problem and an "Update" letter on the new tax legislation passed in 1981. Each lesson includes several review questions. A self-check key comes with the next lesson. The letter-study approach lets you read and review at your own pace, in your own office or living room!

_____ says the course was developed by two Area Agents and a State Specialist in Farm Management in the OSU Cooperative Extension Service.

SOME EVALUATION HIGHLIGHTS FROM THE 1979-80

OHIO FARM INCOME TAX LETTER-STUDY COURSE

Enrollment: 2078 farm families from over 70 counties, plus 26 tax consultants who could be identified as such. Ten percent of the farmers and all consultants were contacted. There were 130 useable responses from farmers (63%) and 22 from consultants (85%).

Fifty-seven percent of the farmers responding said they do their own tax returns. The consultants reported they completed 5517 returns, 778 of them farm returns.

There was a wide age range represented - roughly 1/2 were 40-59 years of age, with a little more than 25 percent under 40, and 25% 60 or older.

On a scale of 1 (low) to 5 (high), the respondents rated their ability to correctly prepare a farm income tax return before taking the course at 2.79. After completing the course, they gave themselves a 3.85 rating, for an improvement of over 1 point.

Those surveyed were asked to respond "yes" or "no" to the following questions relating to six of the main topics covered in the course. Below is shown the percent who responded yes to their own perception of the knowledge of these topics before and after completing the course. Their response indicates they gained a good bit of knowledge from the course.

Do you feel you had (before the course) and have (after the course) a good working knowledge of:

	<u>"Yes" Before the Course</u>	<u>"Yes" After the Course</u>
What records to keep for tax purposes?	90%	100%
Choosing appropriate depreciation strategies?	47%	91%
Claiming the correct investment credit on new and used property?	50%	93%
Correct tax treatment of gain from sale of capital items?	43%	89%
When you are liable for paying social security tax?	68%	98%
Why a "farmer" as defined by IRS doesn't have to file quarterly estimated tax returns?	56%	96%

Of the 103 farmers who responded to the question, "Did you save any income tax as a result of this course?", 45% said they had. Those who said "yes" estimated a total savings of \$11,753 in income taxes, or \$256 per "yes" respondent. Given the sample was random, if this were projected to the 2078 farm families participating, a potential tax savings of nearly \$240,000 may have resulted from the course.

DLacker/Wapakoneta Area/7-7-80

1981-1982 REVISED OHIO LETTER-STUDY
COURSE ON FARM INCOME TAX MANAGEMENT

This course on farm income tax management was developed as a letter-study so you could read it at home and study it over at your own pace. An O.S.U. Extension Economist and two Ohio Area Extension Farm Management Agents tried to take the complicated tax laws and make them a bit more understandable.

Over 2000 Ohio families enrolled in 1979-80. The course was evaluated and participants said they had increased their understanding of income tax management and their ability to correctly file their taxes. Forty-five percent estimated they saved some income taxes as a result of the course -- a reported average of over \$250 per family! Over 1500 more families enrolled in 1980-81.

The course has been updated and revised, and is again being offered for 1981 taxes here in our county. There were several changes made in the course -- some very minor, others rather significant. Some were as a result of changes in tax regulations or new interpretations. Others were attempts to clarify problem areas.

The course is intended to be useful to you farmers and farm wives who do your own tax returns, to those who have a consultant to help you, and to farm tax consultants as well. Each letter includes some instruction on one phase of income tax, additional reference material and a review to help you check what you learned. A self-check key to the review will be coming with the next letter.

The course will begin the first week in November and continue for ten weeks. It will include weekly letters on: Farm Income Tax Management and Reporting - Schedules, etc.; Depreciation; Investment Credit; Soil and Water Conservation and Land Clearing Expense; Capital Gains, Buying or Selling A Farm; Social Security; a comprehensive problem; and an update on key new tax provisions.

The charge for the course to cover our costs for postage and materials is \$6.00. If you want to take the course, please return the tearsheet below promptly (by September 25, 1981) with a check payable to our office.

Sincerely,

DLA/Wapak Area/6-24-81

County Extension Agent, Agriculture

Please return by September 25, 1981 to: (put your address here)

Yes, we want the Farm Income Tax Management Letter-study Course. Enclosed is a check for \$6.00.

Name _____ County _____

Address _____
Rural Rt./Box No./Street Town State Zip

All educational programs and activities conducted by the Ohio Cooperative Extension Service are available to all potential clientele on a nondiscriminatory basis without regard to race, color, national origin, sex, or religious affiliation.

APPENDIX II



Cooperative Extension Service
The Ohio State University

Wapakoneta Area Center
10 West Auglaize Street
Wapakoneta, Ohio 45895
Phone 419 738 4196

FARM MANAGEMENT EXTENSION

Farm Income Tax
Letter-Study Course
1979-80

Total Enrolled = 2,104
10% Sample = 210
Responded = 149
(71%)

EVALUATION

A. Please tell us a bit about yourself. (Please check all that apply.)

1. Why are you interested in farm income taxes?

a. Farming is our major source of income	<u>74</u>	No Response - 3
b. Farming is a minor source of income	<u>55</u>	
c. We prepare tax returns for others	<u>18</u>	
d. Other _____	<u>10</u>	

2. Who does your tax return?

a. I do my own	<u>94</u>	N.R. - 3
b. I hire someone else	<u>57</u>	

3. If you prepare tax returns for others:

a. How many tax returns do you do annually?	<u>7,181</u>	N.R. - 90
b. Of those returns, how many are farm tax returns?	<u>358</u>	
c. For how many years have you been preparing tax returns?	<u>306</u>	

4. In which age group are you?

a. Under 30	<u>16</u>	N.R. - 5
b. 30-39	<u>28</u>	
c. 40-49	<u>35</u>	
d. 50-59	<u>31</u>	
e. 60 and over	<u>34</u>	

5. How would you rate your ability to prepare a farm income tax return before taking the course?

7	33	54	23	28	N.R. - 4 Mean Rating - 2.71
5	4	3	2	1	

Very High

Very Low

6. Now that you have completed the farm income letter study course, how would you rate your ability to prepare a farm income tax return?

26	76	37	4	1	N.R. - 5 Mean Rating - 3.75
5	4	3	2	1	

Very High

Very Low

Improvement - 1.04

4. Please tell us how the course has been of value to you:

1. Before you enrolled in the course, did you feel you had a good working knowledge of:

- a. What records should be kept for tax purposes? Yes 12 No 13 N.R. - 3
b. Choosing appropriate depreciation strategies? Yes 68 No 76 N.R. - 5
c. Claiming the correct investment credit on new and used property? Yes 69 No 75 N.R. - 5
d. Correct tax treatment of gain from sale of capital items? Yes 62 No 80 N.R. - 7
e. When you are liable for paying social security tax? Yes 96 No 44 N.R. - 9
f. Why a "farmer", as defined by IRS, doesn't have to file quarterly estimated tax returns? Yes 79 No 62 N.R. - 8

2. After completing the course do you feel you have a good working knowledge of:

- a. What records should be kept for tax purposes? Yes 137 No 0 N.R. - 12+11
b. Choosing appropriate depreciation strategies? Yes 129 No 10 N.R. - 10+61
c. Claiming the correct investment credit on new and used property? Yes 131 No 10 N.R. - 8+62
d. Correct tax treatment of gain from sale of capital items? Yes 125 No 15 N.R. - 9+125
e. When you are liable for paying social security tax? Yes 134 No 3 N.R. - 12+38
f. Why a "farmer", as defined by IRS, doesn't have to file quarterly estimated tax returns? Yes 132 No 5 N.R. - 12+53

Change
in "Yes"
Responses

3. To what extent have you put to use ideas or skills regarding farm income tax management?

25	40	56	8	5	N.R. - 15
5	4	3	2	1	Mean Rating-3.18

A Great Deal

Some

None

Could you give an example? (on separate sheet of paper)

4. Did you save any income taxes as a result of this course? Yes 56 No 71 N.R. - 14

If yes, Estimated savings: \$15,978 Range - \$25 - \$5,000

Average per "yes" respondents - \$275 Average per total respondents - \$107.00

5. Was the course worth the \$5.00 subscription? Yes 136 No 5

6. Do you have suggestions to help us improve the course. Anything that should be added? Omitted? Changed? (on separate sheet of paper)

Sincerely,

Darrel L. Acker

Darrel L. Acker

Area Extension Agent, Farm Management

DLA:mk

4/21/80

